

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4398-01  
Bill No.: SCS for SB 1111  
Subject: Children and Minors: Department of Social Services  
Type: Original  
Date: April 2, 2002

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue	(\$61,365,077 to Unknown)	(\$64,126,506 to Unknown)	(\$67,012,199 to Unknown)
Federal Reimbursement Allowance and Intergovernmental Transfers	(\$8,673,500)	(\$9,063,808)	(\$9,471,679)
Health Initiatives	(\$4,598,000)	(\$4,804,910)	(\$5,021,131)
Pharmacy Rebates	(\$789,580)	(\$825,111)	(\$862,241)
Premium	(\$1,045,000)	(\$1,092,025)	(\$1,141,166)
Intergovernmental Transfers	(\$1,405,257)	(\$1,468,494)	(\$1,534,576)
<b>Total Estimated Net Effect on <u>All State Funds</u></b>	<b>(\$77,876,414 to Unknown)</b>	<b>(\$81,380,854 to Unknown)</b>	<b>(\$85,042,992 to Unknown)</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 6 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>
Federal	\$0	\$0	\$0
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

\*Income, Savings, Losses and Costs of over \$160,000,000 per year net to \$0.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

### FISCAL ANALYSIS

#### ASSUMPTION

Officials of the **Department of Social Services - Division of Medical Services** stated that the parts of the proposal extending the Children's Health Insurance Program would have no fiscal impact because they extend statutory authority for an existing program. There is a request in the budget for FY 2003 for monies to pay for the program.

Officials stated that requiring an increase in Medicaid reimbursement rates to the same level as Medicare reimbursement rates would have a fiscal impact. Division of Medical Services officials requested an increase in physician rates for children and adults to raise Medicaid rates to 100% of Medicare rates (it is 50%). They estimated costs would be \$87,849,054 for children and \$35,053,595 for adults.

They also noted that payments to hospitals and nursing homes would increase. They can not estimate the magnitude of the increase because Medicaid and Medicare reimbursement methods differ. Medicare pays hospitals on a Medicare Prospective System Payment System based on Diagnostic Related Groups, while Medicaid pays on a per diem basis. Medicare pays nursing homes on a Medicare Prospective Payment System, while Medicaid pays based on patient days.

Officials assume there would be increases in costs for remaining services covered on a fee for service basis and on the managed care program, but can not estimate that fiscal impact.

Officials of the **Department of Health and Senior Services** stated that the proposal would not ASSUMPTION (continued)

affect their agency. They noted that if the proposal or a similar proposal is not enacted, the Department would incur costs of about \$2,000,000 per year to cover children who would qualify for the Children with Special Health Care Needs Program if they were not already covered by the Children's Health Insurance Program (CHIP).

Officials of the **Department of Mental Health** stated that some Medicaid services provided by department personnel would be eligible for higher reimbursements. However, those services provided to the Department by private providers would be more costly. Officials believe that the net effect of the proposal on the Department would be close to zero.

**Oversight** notes that the FY 2002 appropriation for the CHIP includes \$13,678,485 from General Revenue, \$76,227,521 from Federal Funds, \$8,300,000 from the Federal Reimbursement Allowance Fund and Intergovernmental Transfers, \$4,400,000 from the Health Initiatives Fund, \$755,579 from the Pharmacy Rebates Fund, \$1,000,000 from the Premium Fund, and \$1,344,744 from the Intergovernmental Transfer Fund. Oversight assumes costs would increase 4.5% per year.

<u>FISCAL IMPACT - State Government</u>	FY 2003	FY 2004	FY 2005
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**GENERAL REVENUE FUND**

Cost Avoidance - Department of Health and Senior Services (DOH)

Children with Special Health Care Needs Program	\$2,090,000	\$2,184,050	\$2,282,332
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Cost - Department of Social Services (DOS)

Children's Health Insurance Program (CHIP)	(\$14,294,017)	(\$14,937,248)	(\$15,609,424)
Increased Medicaid Reimbursements	(\$49,161,060 to Unknown)	(\$51,373,308 to Unknown)	(\$53,685,107 to Unknown)

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(\$61,365,077 to Unknown)</u></b>	<b><u>(\$64,126,506 to Unknown)</u></b>	<b><u>(\$67,012,199 to Unknown)</u></b>
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**FEDERAL REIMBURSEMENT ALLOWANCE AND INTERGOVERNMENTAL TRANSFERS**

Cost - Department of Social Services (DOS)

Children's Health Insurance Program (CHIP)	(\$8,673,500)	(\$9,063,808)	(\$9,471,679)
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<b>ESTIMATED NET EFFECT ON FEDERAL REIMBURSEMENT ALLOWANCE AND INTERGOVERNMENTAL TRANSFERS</b>	<b><u>(\$8,673,500)</u></b>	<b><u>(\$9,063,808)</u></b>	<b><u>(\$9,471,679)</u></b>
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**HEALTH INITIATIVES FUND**

Cost - Department of Social Services  
(DOS)

Children's Health Insurance Program (CHIP)	(\$4,598,000)	(\$4,804,910)	(\$5,021,131)
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<b>ESTIMATED NET EFFECT ON HEALTH INITIATIVES FUND</b>	<b><u>(\$4,598,000)</u></b>	<b><u>(\$4,804,910)</u></b>	<b><u>(\$5,021,131)</u></b>
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**PHARMACY REBATES FUND**

Cost - Department of Social Services  
(DOS)

Children's Health Insurance Program (CHIP)	(\$789,580)	(\$825,111)	(\$862,241)
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<b>ESTIMATED NET EFFECT ON PHARMACY REBATES FUND</b>	<b><u>(\$789,580)</u></b>	<b><u>(\$825,111)</u></b>	<b><u>(\$862,241)</u></b>
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**PREMIUM FUND**

Cost - Department of Social Services  
(DOS)

Children's Health Insurance Program (CHIP)	(\$1,045,000)	(\$1,092,025)	(\$1,141,166)
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<b>ESTIMATED NET EFFECT ON PREMIUM FUND</b>	<b><u>(\$1,045,000)</u></b>	<b><u>(\$1,092,025)</u></b>	<b><u>(\$1,141,166)</u></b>
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**INTERGOVERNMENTAL  
TRANSFER FUND**

Cost - Department of Social Services  
(DOS)

Children's Health Insurance Program (CHIP)	(\$1,405,257)	(\$1,468,494)	(\$1,534,576)
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<b>ESTIMATED NET EFFECT ON INTERGOVERNMENTAL TRANSFER FUND</b>	<b><u>(\$1,405,257)</u></b>	<b><u>(\$1,468,494)</u></b>	<b><u>(\$1,534,576)</u></b>
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**FEDERAL FUNDS**

Income - Department of Social Services (DOS)

Medicaid Reimbursements	\$73,741,589 to Unknown	\$77,059,961 to Unknown	\$80,527,659 to Unknown
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Savings - Department of Social Services (DOS)

Children's Health Insurance Program (CHIP)	\$79,657,759	\$83,424,359	\$86,988,265
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Cost - Department of Social Services (DOS)

Medicaid Reimbursements	(\$73,741,589 to Unknown)	(\$77,059,961 to Unknown)	(\$80,527,659 to Unknown)
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Loss - Department of Social Services (DOS)

Children's Health Insurance Program (CHIP)	(\$79,657,759)	(\$83,424,359)	(\$86,988,265)
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<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>
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<u>FISCAL IMPACT - Local Government</u>	FY 2003	FY 2004	FY 2005
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**LOCAL HEALTH AGENCIES**

<u>Income</u> - State Funds	\$0 to \$7,315,000	\$0 to \$7,644,175	\$0 to \$7,988,163
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<u>Costs</u> - Direct Medical Services	(\$0 to \$7,315,000)	(\$0 to \$7,644,175)	(\$0 to \$7,988,163)
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<b>ESTIMATED NET EFFECT ON LOCAL HEALTH AGENCIES</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>
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FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

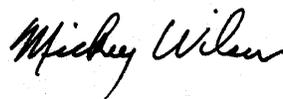
DESCRIPTION

This proposal would extend the sunset date for the Children's Health Insurance Program from July 1, 2002, to July 1, 2007 and would require that Medicaid reimbursement rates for particular services be increased to equal Medicare reimbursement rates. Reimbursement rates would be adjusted each year based on the Medicare Economic Index.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space. This legislation would not affect Total State Revenue.

SOURCES OF INFORMATION

Department of Health and Senior Services  
Department of Mental Health  
Department of Social Services



Mickey Wilson, CPA  
Acting Director  
April 2, 2002